

Amendments to Cyprus Tax Laws

On 26 August 2011 the Cyprus House of Representatives, in an aim to reduce public deficit and improve public finances has passed a series of important amendments affecting tax and companies legislation which are outlined below.

1. The Companies Law

As from 2011 and onwards, all Cyprus companies will have to pay to the Registrar of Companies a fixed annual levy of €350.

No levy is payable on the year of incorporation.

The levy for the year 2011 must be paid by 31st December 2011, whereas for subsequent years it must be paid by 30th June of that year.

For group of companies the total levy is capped at €20.000.

The levy does not apply to dormant companies, companies with no assets or companies with assets in areas which are under Turkish occupation.

In cases of late payment relevant penalties will be applied:

- 10% penalty if it is paid within 2 months of the due date;
- 30% penalty if it is paid within 5 months of the due date;
- If the levy is not paid within 5 months, the Registrar of Companies will deregister the company from the Companies Register. If a company is to be reinstated to the Registry, a fee of €500-€750 must be paid depending on the circumstances.

2. The Income Tax Law

(a) Personal Income Tax Rate

Income Tax Rate for resident individuals or individuals exercising an employment or profession in Cyprus is increased to 35% on their taxable income in excess of €60.000.

This change will be effective as from the tax year 2011.

(b) Tax Incentive

Highly paid employees (with income in excess of €100.000 per annum) will enjoy an exemption from income tax of 50% on their income for the first 5 years of their employment. This deduction applies to both Cypriot and non Cypriot employees who take up residence in Cyprus and the change will be effective as from 1 January 2012.

3. The Special Defence Contribution Law

(a) Interest - increase of the Special Defence Tax from 10% to 15%

An increase of the SDC tax rate on interest received or credited to Cypriot tax residents has been introduced, from 10% to 15%, which applies to both individuals and corporations.

Companies will generally NOT be affected by this increase since interest which arises from the ordinary (or closely related) activities of the company will be subject to the flat income tax rate of 10% and shall be exempt from Special Defence Tax.

(b) Dividends - Increase of defence tax on dividends from 15% to 17%

Special Defence Tax on dividends received or deemed to have been received by Cyprus Tax resident individuals is increased from 15% to 17%.

Non resident individuals or companies are exempted from defence tax on dividends and thus NOT affected by this change.

4. The Immovable Property Tax

The rates applicable for the payment of immovable property tax for properties situated in Cyprus (based on the assessed value of the property as at 1 Jan 1980) have increased as follows:

Property value	Tax
Up to €120.000	0%
From €120.000 to €170.000	0.4%
From €170.001 to €300.000	0.5%
From €300.001 to €500.000	0.6%
From €500.001 to €800.000	0.7%
Over €800.001	0.8%

This change will be effective as from 2012.

5. The Value Added Tax

A lower VAT rate of 5% has been imposed on the purchase or construction of a flat or house to be used as a first private main residence. This rate will apply for the first 200 sq. meters of residences of total covered area of up to 300 sq. meters. This reduced VAT rate applies as from 1 November 2011.

6. Public Sector Employees

Public Sector Employees will contribute 3% of their salaries toward future pension benefits. Further, Public Sector Employees will make contributions towards reduction of the budget deficit. This measure is also effective immediately.

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This newsletter has been written in general terms and is intended to be seen as a brief summary of the amendments to Cyprus Tax Law. We recommend that readers seek appropriate professional advice regarding any query they may have. This publication should not be relied on as a substitute for such advice.

Please contact us for any questions or clarifications, or to discuss the above developments further.

DEMETRIOU & MAVRONICOLA LLC

4, Diagoras street, Kermia Building, 1st floor, 1097 Nicosia
P.O.Box 21026, 1500 Nicosia, Cyprus

tel. +357 22 87 23 30 **fax.** +357 22 67 55 33
email: info@dmlaw.com.cy **website:** www.dmlaw.com.cy